

April 3, 2006

**NOTE TO: Medicare Advantage Organizations and Other Interested Parties**

**SUBJECT: Release of County Fee-for-Service Expenditure Data**

In accordance with section 1853(b) of the Social Security Act, we are releasing county fee-for-service expenditure data for 2004. These data can be downloaded from the CMS web site at <http://www.cms.hhs.gov/MCRAdvSpecificRatesAndStatistics/>. The file is labeled FFS2004.zip. Within the file is a spreadsheet for aged, disabled, and End-Stage Renal Disease (ESRD) beneficiaries.

Each spreadsheet contains several pieces of data for every county in the country:

- total Medicare fee-for-service reimbursement and enrollment for Parts A and B;
- the corresponding per capita reimbursement;
- for Part A, reimbursement for direct (DME) and indirect medical education (IME) expenditures and disproportionate share expenditures (DSH); and
- the per capita expenditures with the medical education and disproportionate share expenditures removed.

Section 1853(b) requires the reporting of the average risk factors for each county based on (1) inpatient diagnoses and (2) diagnoses from not only inpatient but also other sites of service. For 2004, the county average risk factors based on inpatient diagnoses are not available. We are providing average risk factors based on diagnosis from inpatient and other sites of service, since payments to managed care plans were made using these risk factors. In addition, there is a file within the CALCULATIONDATA2007.zip named RISK RECALC 2000-2004.csv which shows the county average risk scores for each year from 2000 to 2004 which were used in developing the 2007 FFS capitation rates. Also, we are providing the average demographic factors ("DEMOG FACTORS") for each county. Seventy percent of payments to managed care plans in 2004 were based on demographic factors such as age, sex, institutional status, and Medicaid status.

Corresponding MA payment rates for 2004 are available at the same web address under "historical rates" in the file labeled ratebook2004.zip. When comparing the fee-for-service data with the payment rates, you should standardize the fee-for-service data since the MA payment rates are already standardized for demographics. Thus, you should divide the per capita amounts in the fee-for-service data by the average demographic factor for the county. In addition, it may be appropriate to subtract a portion of the DME and IME medical education costs from the Part A fee-for-service expenditures. Under current law, for example, it was the intent of Congress that MA payment rates in 2004 reflect, prior to the budget neutrality calculation, reductions of 100 percent for medical education expenditures in such rates. However, county rates that were calculated as fee-for-services rates, as specified by provisions of the Medicare Modernization Act, required

only the DME portion be subtracted from the rates. Other factors might also affect the comparison between the county fee-for-service expenditure data and the payment rates.

In practice, these comparisons should be undertaken cautiously, and the results should be interpreted with a proper understanding of certain inherent limitations. The most important limitation involves the variation in average fee-for-service costs from one year to another. These variations can be relatively substantial, even in large counties. Prior to 1998, the adjusted average per capita cost (AAPCC) ratebooks were based on a 5-year moving average of local costs. The 5-year average was intended to help minimize the impact of such variations, and the MA payment provisions in the Balanced Budget Act of 1997 were further designed to reduce year-to-year and county-to-county fluctuation. The degree of variation observable between fee-for-service costs in 1998 to 2004 is comparable to that in earlier years. Similar fluctuations may reasonably be expected in the future. As a result, any comparison of fee-for-service costs with actual payment rates for 1998 to 2004 would not necessarily hold for future years.

In addition to the limitations mentioned above, the expenditure data reported on these files may be slightly understated. The expenditure data is derived from actual claims processed by intermediaries and carriers and tabulated through the National Claims History File at CMS. Due to a cutoff date of about 6 months after the close of a year in processing bills for this release, the data are not totally complete, and the degree of completeness varies somewhat from one county to another. In addition, end-of-year settlements between certain providers and CMS, which are not completed until providers file their cost reports, are not reflected in these data.

Questions on the county fee-for-service data can be directed to me at (410) 786-6386.

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